

## Message Text

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PAGE 01 STATE 022709

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R 311600Z JAN 75  
FM SECSTATE WASHDC  
TO AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY BONN  
AMEMBASSY TOKYO  
AMCONSUL HONG KONG  
AMEMBASSY BERN

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E.O. 11652:  
TAGS: N/A  
SUBJECT: INTERNATIONAL BANK LENDING

1. AS ONE ASPECT OF ONGOING EFFORT TO FOLLOW OPERATIONS  
OF INTERNATIONAL MONETARY SYSTEM, TREASURY IS SEEKING TO  
ASCERTAIN PRINCIPAL DETERMINANTS OF INTERNATIONAL BANK  
LENDING AND TO EVALUATE RELATIVE SIGNIFICANCE EACH OF  
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PAGE 02 STATE 022709

THESE FACTORS IN 1975.

2. PRELIMINARY ANALYSIS SUGGESTS THAT LEVEL OF INTERNA-

TIONAL BANK LENDING MAY BE AFFECTED BY NUMBER OF FACTORS SUCH AS CAPITAL ASSET RATIOS, GUIDELINES FOR ALLOCATION OF AVAILABLE ASSETS, MATURITY PATTERNS OF LIABILITIES, COUNTRY EXPOSURE LIMITS, AND ASSESSMENT OF CREDITWORTHINESS OF GOVERNMENT BORROWERS.

3. OVER COURSE OF NEXT TWO WEEKS DISCUSSIONS OF POSSIBLE EFFECTS OF SUCH FACTORS WILL BE UNDERTAKEN WITH SENIOR OFFICIALS OF SEVERAL OF LARGEST AMERICAN BANKS INVOLVED IN INTERNATIONAL LENDING. WE WOULD LIKE TO HAVE BETTER UNDERSTANDING OF APPROACH TO INTERNATIONAL LENDING BY MAJOR FOREIGN BANKS AS WELL. PROVIDED, IN EMBASSY JUDGMENT, ACTION CAN BE TAKEN WITHOUT CREATING UNDUE SPECULATION AS TO MOTIVE OR INTENT, EMBASSY OFFICERS SHOULD DISCUSS INTERNATIONAL LENDING POLICIES WITH APPROPRIATE OFFICERS OF BANKS MOST HEAVILY ENGAGED IN INTERNATIONAL

LENDING. WE OF COURSE INTERESTED IN OPERATIONS OF BRANCHES AS WELL AS HEAD OFFICES, AND IN SOME CASES IT MAY BE USEFUL OBTAIN VIEWS OF BRANCH OFFICIALS EVEN THOUGH POLICIES LIKELY BE DETERMINED PRIMARILY BY HEAD OFFICES. BELIEVE IT WOULD BE USEFUL EMBASSY LONDON TO TALK TO OFFICIALS OF LONDON BRANCHES OF ONE OR TWO OF MAJOR U.S. BANKS.

4. IT MAY ALSO BE USEFUL OBTAIN VIEWS OF KNOWLEDGEABLE GOVERNMENT AND CENTRAL BANK OFFICIALS.

5. FOLLOWING POINTS ARE OFFERED AS GUIDE OR CHECK LIST WHICH MAY ASSIST EMBASSY OFFICERS IN MAKING APPROACH. APPROACH SHOULD NOT HOWEVER TAKE ON APPEARANCE OF QUESTIONNAIRE AND NO QUESTIONS SHOULD BE ADDRESSED TO BANKS IN WRITING. INTEREST IS IN UNDERSTANDING METHODS BY WHICH BANKS MAKE DECISIONS ON INTERNATIONAL LENDING TOGETHER WITH INDIVIDUAL JUDGMENT OF CURRENT IMPACT OF VARIOUS FACTORS. QUANTITATIVE ESTIMATES OF LIKELY VOLUME OF 1975 INTERNATIONAL LENDING BY INDIVIDUAL BANKS APPROACHED WOULD BE APPRECIATED, AND PARTICULARLY UNCLASSIFIED

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PAGE 03 STATE 022709

INDICATORS OF CHANGE IN VOLUME 1975 FROM 1974 BUT IF THIS IS NOT POSSIBLE, WOULD APPRECIATE QUALITATIVE ASSESSMENT.

6. WOULD LIKE TO KNOW PRINCIPAL UNCERTAINTIES IN BANK OUTLOOK AND WHAT DEVELOPMENTS IF ANY MIGHT BRING ABOUT MARKED CHANGE IN OUTLOOK. THAT WOULD HELP US WEIGH FOLLOWING FACTORS WHICH MIGHT BE IMPORTANT: CREDIT ALLOCATION GUIDELINES; GOVERNMENT CONTROLS ON CAPITAL OUTFLOW; EQUITY CAPITAL RATIOS; MATURITY DIFFERENTIAL

BETWEEN DEPOSITS AND LOANS; CONCENTRATION OF DEPOSITS;  
CREDITWORTHINESS OF GOVERNMENTS AND COUNTRY RISK  
EVALUATION.

7. INTERESTED IN GUIDELINES USED BY INTERNAL MANAGEMENT  
OR REGULATORY AUTHORITIES IN ALLOCATING CREDIT (DOMESTIC  
AND OFFSHORE) AND IN DETERMINING ADEQUACY OF BANK  
CAPITAL. WOULD LIKE APPRAISAL OF POSSIBLE MEANS OF  
INCREASING BANK CAPITAL AND PROSPECTS. WOULD ALSO LIKE  
BETTER SENSE OF CURRENT DEPOSIT AND LOAN STRUCTURE,  
PROBLEMS IF ANY CAUSED BY CONCENTRATION EITHER DEPOSITS  
OR LOANS OR BY MATURITY DIFFERENTIALS.

8. ON CREDITWORTHINESS QUESTION, PARTICULARLY INTERESTED  
IN GAINING BETTER FEEL FOR EVALUATION PROCEDURE. IN  
PARTICULAR:

A. WHAT METHODS ARE USED FOR EVALUATING FINANCIAL

STRENGTH OR VULNERABILITY/RISK OF A COUNTRY AND ITS  
GOVERNMENT, I.E., ECONOMIC CRITERIA FOR DETERMINING  
ADEQUACY OF FLOW OF EXTERNAL LIQUIDITY SUCH AS CURRENT  
ACCOUNT RELATIONSHIPS OR RESERVE RATIOS, EXCHANGE RATE  
POLICY, INTERNAL AND EXTERNAL FINANCIAL MANAGEMENT  
CAPABILITY, DEBT BURDEN AND REPAYMENT RECORD, SOCIAL  
POLITICAL ENVIRONMENT.

B. IF COUNTRY EXPOSURE LIMITS USED, HOW ARE THEY  
DETERMINED AND HOW FLEXIBLE ARE THEY. WHAT CRITERIA ARE  
OPERATIVE, E.G., WILLINGNESS TO PAY ABOVE MARKET RATE?  
TO WHAT EXTENT IS MATURITY A FACTOR IN EXPOSURE LIMITS?  
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PAGE 04 STATE 022709

C. WOULD BANKS LEND MORE WITH INCREASED GOVERNMENT  
SUPPORT FROM EITHER OPEC OR INDUSTRIAL COUNTRIES? WILL  
EXISTENCE OF POTENTIAL BORROWING FROM IMF, PROPOSED OECD  
SOLIDARITY FUND OR OTHER INTERNATIONAL OFFICIAL ARRANGE-  
MENTS WHICH CAN PROVIDE "TAKE OUT" FACILITIES AFFECT  
BANK DECISIONS?

D. GIVEN RULES OF THUMB, WHAT COUNTRIES SEEM LIKELY TO  
FACE DIFFICULTIES IN ATTRACTING NEW FUNDS OR ROLL OVER  
OLD LOANS AND UNDER WHAT CONDITIONS?

E. IN WHAT WAYS MIGHT BANKS CHANGE CONDITIONS UNDER  
WHICH THEY WILL MAKE LOANS IN 1975, E.G., REQUIRE SHORTER  
MATURITIES, LARGER LOAN SPREADS, GUARANTEES BY CENTRAL  
BANKS OR LOCAL COMMERCIAL BANKS?

9. ANY QUANTITATIVE INFORMATION YOU COULD SUBMIT ON EVOLUTION OF BALANCE SHEETS OF MAJOR BANKS 1973 AND 1974 WOULD BE APPRECIATED. USEFUL DATA WOULD INCLUDE SIZE, GROWTH AND COMPOSITION OF BOTH ASSETS AND LIABILITIES. INTERESTED IN MIX FOREIGN AND DOMESTIC ACTIVITIES, COUNTRY EXPOSURE, MATURITIES OF DEPOSITS AND LOANS.

10. WOULD APPRECIATE RECEIVING AT LEAST PRELIMINARY REPORT BY FEBRUARY 10. KISSINGER

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